



Treasury Inspector General for Tax Administration

DELAYS IN TRANSFERRING INNOCENT SPOUSE CLAIMS HAVE RESULTED IN SOME INAPPROPRIATE COLLECTION ACTIONS

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Highlights

Highlights of Report Number: 2007-40-175 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) consolidated its processing of Innocent Spouse claims at the Cincinnati Centralized Innocent Spouse Operations (CCISO) to ensure claims are processed accurately, timely, and consistently. Taxpayers often do not send their claims directly to the CCISO, and the other IRS campuses and field functions must transfer them to the CCISO for processing. Many of these transfers occurred more than 30 calendar days after initial receipt by the IRS. Extended delays in transferring claims increase the risk that the IRS will take some inappropriate collection actions that should have been prevented.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the controls over transferring Innocent Spouse claims to the CCISO. In Fiscal Years 2003 through 2006, the IRS received approximately 102,000 Innocent Spouse claims, 33,389 (33 percent) of which were transferred to the CCISO from various IRS functions.

TIGTA previously reported in 2003 that these claims were not always processed timely because there was no timeliness standard for claims transferred to the CCISO and recommended a timeliness benchmark be established. The IRS disagreed that a timeliness standard was necessary due to other actions it was taking to reduce the number of claims received in the other functions.

WHAT TIGTA FOUND

Various IRS campuses and/or field functions took an average of 74 calendar days to transfer to the CCISO 7,765 (23 percent) of the 33,389 Innocent Spouse claims received in Fiscal Years 2003 through 2006. As a result, in Fiscal Year 2006, the IRS took some

inappropriate collection actions on 52 taxpayers claiming Innocent Spouse relief.

IRS campuses and field functions have procedures for transferring Innocent Spouse claims; however, the CCISO does not provide feedback to the originating functions on untimely claim transfers.

After we discussed the results of our review with IRS management, they revised the Request for Innocent Spouse Relief (Form 8857) instructions to tell taxpayers to send their Innocent Spouse claims directly to the CCISO.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS establish a 10-workday Innocent Spouse claim transfer standard for claims not sent directly to the CCISO by taxpayers; establish an evaluation and feedback process to identify transfer delay causes and trends for functions not meeting this new standard; and issue a memorandum to all compliance, field assistance, and submission processing function employees reminding them of the importance of timely sending Innocent Spouse claims to the CCISO and stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief. In addition, the IRS should ensure any money being held inappropriately as a result of these transfer delays is immediately released to the taxpayers.

In their response to the report, IRS officials stated they agreed with the recommendations. They plan to establish a 10-workday Innocent Spouse claim transfer standard for any claims not sent directly to the CCISO by taxpayers. They also plan to develop a monthly evaluation and feedback report that will include the noncompliant operation(s), original claim received date, and CCISO received date and will list any incorrect collection action resulting from the lateness. Management plans to distribute this report monthly to the headquarters staff responsible for that operation; the CCISO will monitor the report.

In addition, IRS management plans to prepare a memorandum for all compliance, field assistance, and submission processing function employees reminding them of the importance of (1) timely transferring Innocent Spouse claims to the CCISO and (2) stopping inappropriate collection actions on all taxpayers requesting Innocent Spouse relief. They also agreed to conduct an immediate review to ensure there are no monies currently being withheld incorrectly on delayed claims from the campuses and field functions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740175fr.pdf>.

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